

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1309-02
Bill No.: HB 807
Subject: Health Care; Medicaid; Medical Procedures and Personnel; Pharmacy
Type: Original
Date: April 2, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$31,363,236)	(\$10,641,120)	(\$10,919,664)
Total Estimated Net Effect on <u>All</u> State Funds	(\$31,363,236)	(\$10,641,120)	(\$10,919,664)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Federal	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds*	\$0	\$0	\$0

***Revenues and expenditures of approximately \$21 million annually net to \$0.**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 13 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety - Missouri State Highway Patrol**, the **Department of Insurance**, the **Missouri Consolidated Health Care Plan**, and the **Department of Conservation** assume this proposal would not fiscally impact their agencies.

Department of Mental Health (DMH) officials state that approximately 50% of Division of Comprehensive Psychiatric Services clients are not covered by Medicaid. Of those, only a few would be over 65 years old. Some of this limited population get their medications through drug manufacturer indigent programs, via the Community Mental Health Centers from which they are receiving services. Therefore, this proposal would impact the few clients in that DMH pays medications for through the Purchase of Services system. DMH estimates that there were 285 clients that were medicare eligible in FY 2000 with total drugs costs of \$161,866.80. DMH also estimates that of these 285 clients, between 15% and 20% would be below 300% poverty level. Using this assumption, it is predicted this legislation would allow an average of 20% savings on the total drug costs, which would equal \$32,373.36 ($\$161,866.80 \times 20\% = \$32,373.36$). DMH concludes the total potential savings generated by this proposed legislation would range from \$32,373 to unknown.

Officials from the **Department of Social Services** assume the following:

Division of Medical Services

The proposed legislation would require the Department of Social Services (DOS) to apply for a waiver to the federal Department of Health and Human Services. The Division of Medical Services (DMS) assumed that DMS would apply for the waiver to the Health Care Financing Administration (HCFA).

The proposed legislation has an emergency clause, meaning it shall be in full force, upon passage and approval. This is problematic. In order for DMS to obtain the rebates available through the federal rebate program, DMS must obtain a waiver from HCFA. Based on experiences in other states, DMS assumes that waiver approval would not be approved any earlier than January 1, 2002. For the purposes of this fiscal note, DMS assumed a start date of January 1, 2002 of this program.

The proposed legislation dictates that the eligible population for this program will be Medicare eligibles whose income is at or below 300% of the Federal Poverty Level (FPL) who do not have other pharmacy insurance. There are currently 854,472 Medicare eligibles. Of this amount, DMS estimates that the population at or under 300% FPL is 528,626. For the purpose of this fiscal note, DMS assumed that the percent with drug coverage will be 40%. This yields a

ASSUMPTION (continued)

population of 317,176 ($528,626 * 60\%$) without drug coverage. For the purpose of this fiscal note, DMS assumed 100% participation and assumed all would participate upon implementation of the program.

DMS based the yearly cost on the yearly cost of the senior pharmacy assistance program in New York in 1999, which was \$1,960. DMS inflated the cost by 15% to obtain a yearly cost of \$2,254 and further assumed that the cost would increase by 5% each year.

The bill dictates that enrollees shall receive prescription drugs at a price equivalent to the price that Medicaid pays minus the enrollee's 30% share of the national rebate. The bill specifies that 30% of the rebate shall be credited at the point of sale as a discount to the enrollees. The bill further specifies that the community pharmacies shall be reimbursed monthly for the discounts given to enrollees. The bill further specified that 47% of the rebate shall be given to the participating community pharmacies as a service fee on a monthly basis. The remaining 23% of the rebate shall be retained by the DSS to cover administrative costs of the program. Based on this, DMS assumed the following:

- Enrollee would request prescription at the pharmacy.
- The pharmacy would send the claim to DMS through existing Point of Sale (POS) networks..
- DMS will respond with the Medicaid rate, the enrollee's 30% share of the rebate, and the amount to be collected from the enrollee.
- DMS assumes the intent of the legislation was to utilize the existing Medicaid remittance advices (RAs) to provide the actual reimbursement for the enrollee's 30% share of the rebate to the pharmacy. The RAs will contain the specific rebate amount for each claim. It will reiterate information that was provided in the POS transaction for reconciliation purposes.
- Also on a monthly basis, DMS will provide participating pharmacies 47% of the rebate. DMS assumed that the 47% will be based on participation. DMS assumed that this payment should be based on the total Medicaid allowed amount. This payment would also be done through the Medicaid remittance advices.

For the purposes of this fiscal note, DMS assumed that the enrollee would receive the 30% discount and the provider would receive the 47% as soon as the program started and that the cost would be General Revenue. Due to the lag in rebates discussed below, DMS assumes that the State would provide the funding to initiate the program. DMS further assumed that due to the lag in rebates and assuming a growth in the program, there will always need to be some funding for this issue.

DMS assumed that the percentages would be based on the total estimated rebates, not the estimated rebates for each specific drug. If the reimbursement percentages would be based on the specific drugs, this would require a significant change in the approach of this fiscal note,

ASSUMPTION (continued)

which would significantly increase the costs.

The legislation dictates that enrollees shall be issued an identification card. The cost to produce an identification card is \$.85. DMS assumed a caseload growth of 5% each year. DMS assumed the claims processing costs would be \$.253 per claim. DMS also estimated costs of \$900,000 for system related changes.

In the current rebate process, pharmacy manufacturers are reimbursed on a quarterly basis. The quarters are standard, January - March, etc... HCFA provides a rebate tape approximately 45 days after the end of the quarter. DMS combines the rebate tape with utilization data and submits an invoice to the manufacturer within a month. Based on these timelines, it is assumed that there is a six months lag between services and rebate collection. DMS assumed that there will be no rebates received in FY02. DMS further assumed that 17% of the actual expenditures will be collected as rebates.

DMS assumes that there will be no federal funds available for the operation of the program. DMS assumed that there would be federal funds available for the discount received by the enrollee.

The proposed legislation dictates that the State shall conduct a statistically valid study to determine the average cost of filling a prescription, exclusive of any profit. The findings of this study shall be used to set the reimbursement for all Medicaid prescriptions. The State shall pay each pharmacy no less than the cost determined by the study. The study shall include an inflation factor in the year a study is not conducted. DMS estimates a cost of \$200,000 to conduct the study. Based on industry testimony within the last year, DMS understands the actual cost to dispense is approximately \$2.00 more than the current Medicaid dispensing fee. For the purposes of this fiscal note, DMS assumed \$2.00 per claim and assumed that this amount would not increase in FY03 or FY04. Currently, DMS estimates 7,300,000 claims for FY2002, 15,600,000 for FY2003, and 16,600,000 for FY2004. DMS assumed that there would be federal share available on this increase in dispensing fee.

Division of Family Services

DFS assumes the begin date of this pharmacy discount program to be delayed until all waivers through The Department of Health and Human Services, Health Care Financing Administration (HCFA) have been decided. For the purposes of this fiscal note, the DFS is assuming a start date of January 1, 2002 (In order to be consistent with the DMS). See attached comment memo.

Assume all cost from July 1, 2001 to April 1, 2002 to be State General Revenue costs due to

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ASSUMPTION (continued)

HCFA wavier process.

DFS assumes the term "Medicare eligible" to be those individuals actually receiving Medicare benefits.

Assume "household income" to mean the individual seeking assistance and their spouse.

It is assumed that the DFS will be the entity to ultimately make decisions regarding eligibility for the Pharmacy Discount Program and not community pharmacies. HCFA has not allowed entities other than state agencies to make eligibility determinations in the past. DFS assumes this precedence will continue. However, there are no prohibitions that prevent the community pharmacies from accepting applications and forwarding them to the appropriate DFS office for the eligibility determinations to be made. See attached comment memo.

DFS assumes the \$2 "sign-up fee" to be a handling fee on a per application basis charged by community pharmacies who are participating in the pharmacy discount program. Assume the "sign-up fee" to be an expense of the DFS and not the applicant. It is further assumed that this fee may be charged contingent upon HCFA's approval through the 1115 waiver. Providing the necessary waivers are approved, the DFS would assume this cost to be an "administrative fee" under Medicaid. See attached comment memo.

DFS assumes that participants in the Qualified Medicare Beneficiary and Specified Low-Income Beneficiary programs to be eligible to participate in this pharmacy discount program. See attached comment memo.

Assume that the DFS will design and provide distribution of a one page (two-sided) application form to all participating community Medicaid pharmacies. According to the Division of Medical Services (DMS) there are 1100 participating Medicaid pharmacies in the State of Missouri.

Assume the initial distribution of application forms for the pharmacy discount program to be 185,000 plus an additional 25,000 pamphlets. According to officials of the State Print Center the cost to produce such a form as the one needed for the pharmacy discount program to be approximately 3 cents per application form.

DFS assumes the "identification card" to be issued to eligible participants of the pharmacy discount program to be the responsibility of the DMS.

Assume the global Medicare population eligible to participate in the Pharmacy Discount Program to be 854,472. DFS assumes the population under 300% of the Federal Poverty (FPL) to be 528,626. According to the DMS approximately 40% of the Medicare population have drug

ASSUMPTION (continued)

coverage. This results in a population of 317,176 (528,626*60%). For the purposes of this fiscal note, the DFS assumes a 100% participation rate. Numbers developed by the Division of Medical Services.

Assume a caseload to be 480 cases for the pharmacy discount program.

Assume eligible cases to be reinvestigated on an annual basis for continued participation in the pharmacy discount program.

FISCAL IMPACT

New Staff:

DFS does not have sufficient professional and support staff to effectively process and maintain the 317,176 potential new eligibles for the pharmacy discount program were this bill to be enacted.

$317,176 / 480 = 661$ new Caseworker FTEs needed to maintain new cases. Caseworker duties and responsibilities include take and process applications for eligibility, respond and answer both written and telephone requests for information or reported changes, and maintain all active cases in caseload.

Assume annual salary for a caseworker to be \$29,040.

DFS will need 66 new Supervisor I FTEs ($661 / 10$) to provide the direct day-to-day supervision to caseworkers, providing consultation as needed, troubleshooting difficult case situations, monitoring caseloads for accuracy, currency and balance of cases.

Assume annual salary for a Supervisor I to be \$33,276

DFS will need 6 new Supervisor III FTEs ($66 / 10$) to provide support in the form of technical assistance and consultation to the frontline supervisory staff and monitor the effectiveness of the services provided for maximum program efficiency.

Assume annual salary for a Supervisor III to be \$39,048

DFS will need 5 additional Training Tech II FTEs to provide the basic orientation training, in-services training and development of training curriculums needed to equip new caseworkers working with the pharmacy discount program.

ASSUMPTION (continued)

DFS will need 185 Clerk Typist II's FTEs (738 / 3.97) to support the additional caseworkers and supervisors. Clerk Typist II duties and responsibilities include maintaining reports, typing letters, systems information (input/extraction), filing, accepting incoming phone calls for messages, maintaining stocks of supplies and forms, and other essential duties as support staff.

Assume annual salary for a Clerk Typist II to be \$20,472

Equipment and Expenses (E & E)

One Time Costs: (For FY 2002)

Systems furniture	4,500	
Lateral File (4 drawer, 36" width)	552	
Chair	245	
Side chair (1)	125	
Calculator	60	
PC	2000	
PC Software	300	
Desktop Printer	310	
Phone Installation	600	
Data Line	175	
	Sub-Total	8,867

On-Going Costs for FY-2002 (Costs based on a 12 month year.)

Full Year

Office Space	2700	
Utilities	520	
Office Supplies	300	
Copy Machine	200	
Data Line	60	
Phone Usage	500	
DDP Maintenance	124	
	Sub-Total	\$4,404

ASSUMPTION (continued)

On-Going Costs: (FY 2003 & 2004)

Office Space 2700
 Office Supplies 300
 Copy Machine 200
 Utilities 520
 Data Line 60
 Phone Usage 500
 DDP Maintenance 124

Sub-Total $\$4,404 \times 2 = \$8,808$

Total E&E $22,079 \times 923 = \$20,378,917$

Travel Expenses

Travel expenses of \$1000 per year are being anticipated for supervisor FTEs.

Travel expenses of \$225 per year are being anticipated for caseworker FTEs.

\$225 Annual travel cost per caseworker
 x 661 # of Caseworker FTEs
 \$148,725 Total annual travel cost for caseworkers

\$1,000 Annual travel cost per supervisor
 x 72 # of Supervisor FTEs
 \$72,000 Total annual travel cost for supervisors

\$148,725
 + 72,000
 \$220,725 Total Annual Travel Expenses

No travel expenses expected for new Clerk Typist FTEs.

Sign-up Fees:

If 25% of the total eligibles apply for the pharmacy discount program through a community pharmacy the cost administratively to the DFS would be as follows:

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ASSUMPTION (continued)

317,176	Number of Eligibles
x 25%	% applying at Pharmacies
79,294	Total eligibles applying through pharmacies
79,294	Total eligibles applying through pharmacies
x 2.00	Sign-up fee cost per application
\$158,588	Total projected cost for sign-up fees

Printing Costs:

DFS plans to have a supply of applications available in each of its county offices and also available to pharmacies who wish to make applications available to their clientele. The initial print will consist of 337,000 (317,176 + 20,000 application forms to be rejected) application forms and 183,400 pamphlets. The DFS estimates it will need to print an additional 337,176 forms annually for FY 2003 and FY 2004 since the legislation states that "enrollment" shall be completed annually. Furthermore, DFS estimates it will need an additional 20,000 (10%) forms for FY 2002, FY 2003 and FY 2004 to take in to consideration those individuals who apply for the pharmacy discount program but are not found eligible for benefits.

The application forms will be available in each of the DFS county offices statewide and available for pharmacies to order from the DSS Warehouse. Rather than sending a supply out to each of the pharmacies in the state, a notice will be sent either by DFS or DMS advising pharmacies of their availability. This seemed to make sense given the fact that some pharmacies may not want to be involved in the application part of the process.

$337,176 \times .03$ (printing cost per page) = \$10,115 - Total Printing Cost for Forms per FY

A supply of pamphlets will be made available to pharmacies, hospitals, clinics, and health centers around the state for the purpose of community awareness. The DMS estimates there are the following numbers of participating Medicaid providers:

Pharmacies -	1,100
Hospitals -	449
Clinics -	173
Health Centers -	112
	1,834

DFS plans to provide an initial supply of 100 to each participating site.

ASSUMPTION (continued)

1,834	Participating Medicaid providers
x 100	# of pamphlets per site
183,400	Pamphlets to be printed

The cost to produce a simple pamphlet (two-sided) is .03 each.

183,400	Total # of pamphlets
x .03	Cost per pamphlet
\$5,502	Total cost for pamphlets

Total Printing Costs

\$10,115	Application Forms
+5,502	Pamphlets
\$15,617	Total Printing Cost

Division of Legal Services

Division of Legal Services (DLS) officials state the proposal does not provide for an administrative hearing. DLS does not anticipate that the hearings unit would be tasked with conducting any sort of hearing in the wake of a denial of an application.

The proposal discusses the pharmacy assistance program in the context of "Medicaid Waivers". The proposal is clear that the benefit to the individual is the ability to purchase prescription drugs at the Medicaid price less a 30% share of the available national rebate. The proposal further provides that participants would not receive any other Medicaid benefits. Thus, the participants would be paying from their own resources - at a discounted price. DLS states the participants would not be receiving medical assistance as defined in section 208.164.1 (6), RSMo. Since the participants are not receiving such benefits, they would not be eligible for an administration hearing. Since all administrative decisions must be subject to some form of judicial review. Persons denied reimbursement would at least be entitled to judicial review at the appropriate circuit court. In accordance with current practice DLS would represent the department at the circuit court. DLS anticipates that disputes would arise and that some applicants would be found ineligible and would seek review of the department's decision.

DLS has been advised that 317,176 persons may be eligible for this program in FY 2002. Based on this number DLS would require 2.5 FTE attorneys and 1 FTE support staff to handle potential petitions for judicial review at the circuit court. With 317,176 possible eligible persons, if one assumes that only one percent of applicants were to be denied (resulting in 3,171 denied

ASSUMPTION (continued)

applications) and if one further assumes that one percent of those denials were to seek judicial review, there would be 317 petitions for judicial review. Assuming an average of 16 hours per case (attorney time only) there would be total of 5,072 hours of attorney time on these cases (16 hours/case x 317 cases = 5,072 hours). With a work year of 2,080 hours/attorney year it would take 2.5 FTE attorneys to address these cases.

Oversight, using the staffing request for the Children's Health Insurance Program (CHIP) as a guide, assumes DFS will require 151 FTE to implement this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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GENERAL REVENUE FUND

Savings - Department of Mental Health

Increase to 300% poverty level	At least \$24,280	At least \$32,373	At least \$32,373
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Cost - Department of Social Services -
 Division of Medical Services

Personal services (14 FTE)	(\$235,188)	(\$482,136)	(\$494,190)
Fringe benefits	(\$78,388)	(\$160,696)	(\$164,714)
Expense and equipment	(\$8,703,381)	(\$3,931,660)	(\$3,898,659)
Program specific	(\$18,225,160)	(\$1,870,577)	(\$2,056,712)
Total <u>Costs</u> - DMS	(\$27,242,117)	(\$6,445,069)	(\$6,614,275)

Costs - Department of Social Services -
 Division of Family Services

Personal services (101.17 FTE)	(\$2,470,724)	(\$2,532,492)	(\$2,595,805)
Fringe benefits	(\$823,492)	(\$844,080)	(\$865,182)
Expense and equipment	(\$527,460)	(\$543,284)	(\$559,583)
Program specific	(\$159,833)	(\$120,219)	(\$123,826)
Total <u>Costs</u> - DFS	(\$3,981,509)	(\$4,040,075)	(\$4,144,396)

Cost - Department of Social Services -
 Division of Legal Services

Personal services (3 FTE)	(\$77,203)	(\$94,998)	(\$97,372)
Fringe benefits	(\$25,732)	(\$31,663)	(\$32,454)
Expense and equipment	(\$60,955)	(\$61,689)	(\$63,539)
Total <u>Costs</u> - DLS	(\$163,890)	(\$188,349)	(\$193,366)

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$31,363,236)</u>	<u>(\$10,641,120)</u>	<u>(\$10,919,664)</u>
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FEDERAL FUNDS

<u>Income - Department of Social Services</u>			
Medicaid reimbursements	\$10,809,991	\$21,037,488	\$22,309,868

<u>Cost - Department of Social Services - Division of Medical Services</u>			
Increase in dispensing fees	(\$8,913,300)	(\$19,047,600)	(\$20,268,600)

<u>Cost - Department of Social Services - Division of Family Services</u>			
Personal services (49.83 FTE)	(\$1,216,924)	(\$1,247,347)	(\$1,278,531)
Fringe benefits	(\$405,601)	(\$415,741)	(\$426,134)
Expense and equipment	(\$259,794)	(\$267,588)	(\$275,615)
Program specific	<u>(\$14,372)</u>	<u>(\$59,212)</u>	<u>(\$60,988)</u>
Total <u>Costs</u> - DFS	<u>(\$1,896,691)</u>	<u>(\$1,989,888)</u>	<u>(\$2,041,268)</u>

ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

Small businesses (pharmacies) would expect to be fiscally impacted to the extent that they would incur additional revenues and expenses due to the requirements of this proposal.

DESCRIPTION

This proposal would establish a Pharmacy Assistance Program and guidelines for participation in the program. Individuals would be eligible for the program if they are eligible for Medicare, have a household income that is 300% of the federal poverty level, and do not have supplemental insurance that covers the cost of prescription drugs. The proposal would establish a formula for determining the discount on prescription drugs for program participants.

The proposal would also provide for Missouri's participation in the national rebate program for states that would establish a pharmacy discount program, and it would set guidelines for the distribution of the rebate. It would also establish a system to be used by pharmacies to submit claims for reimbursement by the state. The proposal would require that a survey be completed every 2 years to determine the average cost of filling a prescription in Missouri. This information would be used in determining the reimbursement rate. The proposal contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance
Missouri Consolidated Health Care Plan
Department of Social Services
Department of Conservation
Department of Transportation
Department of Public Safety
Missouri State Highway Patrol
Department of Mental Health



Jeanne Jarrett, CPA
Director

April 2, 2001